



Claire McCaskill

Missouri State Auditor

July 2006

City of Pleasant Valley, Missouri

Year Ended June 30, 2005



Office Of
Missouri State Auditor
Claire McCaskill

July 2006

The following findings were included in our audit report on the City of Pleasant Valley, Missouri.

The city needs to prepare an accounting manual for handling and recording financial transactions and records. There is little independent oversight or adequate segregation of duties related to the city clerk's office. The City Clerk can sign checks, and both the City Clerk and Assistant City Clerk are responsible for all record-keeping duties of the city. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by that office. In addition, many functions of the treasurer's and collector's offices are performed by the city clerk's office. Furthermore, receipts were not always deposited on a timely basis, bank accounts need to be consolidated, all funds need to be in interest-bearing accounts, and an account ledger needs to be maintained for the city's two escrow accounts.

The fiscal year 2005 budget did not include all information required by state law. For the year ended June 30, 2005, the city's actual expenditures exceeded the original and/or amended budgeted amounts of several funds. There is no documentation that the entire board reviewed and discussed the variance (budget to actual) report and there were significant differences between the ending balances on the semiannual published financial statement for the period ending June 30, 2004 and the beginning balances as of July 1, 2004.

The city does not prepare an annual maintenance plan for city streets. During the year ended June 30, 2005, the Street Fund expenditures totaled over \$187,000.

The city's fire department handles calls for fire and ambulance services. For the year ended June 30, 2005, the city collected approximately \$65,000 and \$62,000 for ambulance services and fire department sales tax, respectively. The city has decided to use the sales tax revenues for fire department equipment. All other expenditures for the fire department, such as salaries and fringe benefits, volunteer expense, supplies, and training are paid through the General Fund. These expenditures totaled over \$300,000 for the year ended June 30, 2005, with the majority of the expenditures related to personnel costs. The city contracts with an agency for the billing and collection of ambulance fees; however, the city does not maintain an accounts receivable ledger for ambulance services.

In addition, the billing and payment records maintained by the Fire Chief are not complete or accurate. As a result, the amount of fees billed and paid and the accounts receivable balance cannot be readily determined. It appears the Fire Chief is not sending the billing information to the city's billing/collection agency in a timely manner. For example, we noted an instance when an insurance company rejected a claim as the time limit for filing

YELLOW SHEET

had expired. The city needs to establish formal procedures outlining the criteria or specific procedures to be followed in writing off delinquent accounts deemed as uncollectible.

The time records maintained for both part-time and volunteer firemen need to be improved. The city is not properly accounting for its payments to the volunteer firemen and does not require the volunteers to account for the reimbursement of expenses. The board has not adopted an ordinance to set the current compensation of the Fire Chief. In addition, the board has not established the number of hours it expects the Fire Chief to work and does not require him to account for the hours he works.

The city does not have a formal bidding policy. Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for \$10,000 for sewer maintenance, \$5,401 for a riding lawn mower, \$4,400 for two computers, and \$6,348 for ambulance repairs. In addition, proposals for professional services totaling almost \$20,000 were not obtained. The city does not require its employees to account for cash advances and return any unused funds. In addition, the city does not report the advances on the employee's W-2.

The city appears to have circumvented the intent of state law when establishing the term of office and compensation of the City Clerk. The city re-defined the term of office and salary during the time for which a City Clerk was appointed. State law requires the City Clerk's salary, duties and term of office be established by ordinance, and the clerk's salary should not be changed during the time of his/her appointment.

Also included in the report are recommendations related to financial reporting, payroll and personnel matters, minutes and meetings, capital assets and the municipal court.

All reports are available on our website: www.auditor.mo.gov

CITY OF PLEASANT VALLEY, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Pleasant Valley, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Pleasant Valley, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Pleasant Valley, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

December 16, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Lori Bryant

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF PLEASANT VALLEY
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Accounting Controls, Records, and Procedures
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The city needs to improve its accounting controls, records, and procedures. The city does not have an accounting manual, record-keeping duties of the city are not adequately segregated, receipts are not issued, and deposits are not always made on a timely basis. Also, the city needs to operate the petty cash fund on an imprest basis and maintain a ledger for its escrow accounts. In addition, the city's bank accounts should be consolidated.

- A. The city has not prepared a detailed accounting manual to provide guidance about the policies, procedures, controls, or documentation to be followed in handling and recording financial transactions and records. Because the city clerk's office has experienced turnover in personnel in the last several years, office personnel do not always know where to obtain needed information, how to record transactions, or who is responsible for various duties.

Employees need written policies and procedures to ensure operations are conducted in accordance with the city's intent, and to assist employees in properly performing their assigned responsibilities. Additionally, an accounting manual would aid in the training of new employees.

The city's independent auditors also reported this problem in their Report to Management for the year ended June 30, 2004.

- B. The City Treasurer and City Collector are not performing all duties of their respective offices as established by ordinance and/or state law. As a result, the activities of these offices do not provide an adequate segregation of duties for the record-keeping functions of the city. As discussed below, many functions of these offices are being performed by the city clerk's office.

1. The City Treasurer does not receive or disburse monies or maintain an accounting of the city's funds, as provided by ordinance. Instead, she compares the monthly financial records maintained by the city clerk's office to bank activity and prepares the semi-annual financial statements, which are published. She also prepares "exception reports" for the city clerk's office which identify items she believes are misclassified or do not agree with the bank statements. However, her reviews were not always performed on a timely basis. For example, the minutes for the board's Finance Committee in January 2005, indicated the comparisons for November and December 2004 were not completed. In addition, it appears the problems identified are not always properly corrected.

2. The City Collector does not prepare adequate monthly or annual reports of tax collections and delinquent taxes. As noted below, the city clerk's office, not the City Collector, collects and deposits tax receipts. Instead, the City Collector uses the deposits and the tax statement return slips, which were retained by the city clerk's office, to prepare a monthly report of collections. She also prepares delinquent tax statements in May each year. However, Sections 79.310, 94.320, and 94.330, RSMo, require the city collector to prepare a monthly report of delinquent tax collections, and an annual list of delinquent tax including a detailed list of persons who have not paid.

The city needs to evaluate the duties of the City Treasurer and City Collector to ensure the duties are necessary, comply with state law and provide for an adequate segregation of record-keeping duties for the city.

- C. There is little independent oversight or adequate segregation of duties related to the city clerk's office. As discussed above, although the city has a City Treasurer and City Collector, the activities performed by these officials are not sufficient for an adequate segregation of duties.

The City Clerk and Assistant City Clerk are responsible for all record-keeping duties of the city, including duties which would normally be performed by a City Treasurer and City Collector. The duties include receiving and depositing tax collections and all other monies, recording receipts and disbursements, preparing and distributing checks, maintaining payroll records, and preparing monthly financial reports and bank reconciliations. Additionally, the City Clerk can sign checks. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the city clerk's office.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations of receipts to deposits, bank statements and bank reconciliations.

The city's independent auditors also reported the city needed "to improve the segregation of responsibilities for asset custody and related record keeping" in their Report to Management for the year ended June 30, 2004.

- D. The city does not issue prenumbered receipt slips or maintain a list/log of all monies received. The city clerk's office issued receipt slips until the practice was stopped in July 2005.

Most monies received are separated for deposit by type of receipt, such as tax receipts, permits and licenses, franchise fees, and police reports and a deposit slip is prepared for each type of receipt. The deposit slip is used to record receipts in the accounting records. Listings are also maintained for various permits issued such as building, plumbing/sewer, etc. However, the listings are not reconciled to deposits. Although the individual payee and amount are recorded on the deposit slips for each check received, all cash received is recorded as one amount (not specifically identified). It appears the deposit slips lack sufficient detail needed to ensure all receipts are properly identified and classified in the accounting records.

To account for all receipts and to ensure all receipts are deposited, prenumbered receipt slips should be issued for all monies received, reconciled to the composition of monies deposited, and the numerical sequence of receipt slips should be accounted for properly.

- E. Receipts were not always deposited on a timely basis. For example, there were no deposits of property taxes collected from December 15, 2004 to January 10, 2005, when four deposits totaling more than \$100,000 were made. The dates received stamped on the paid tax statements ranged from December 14 to December 31. Also, during a cash count on August 17, 2005, the city had over \$4,100 in various permits, fees, and investment interest that had been collected since August 10, 2005.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all receipts should be deposited intact daily or when accumulated receipts exceed \$100.

- F. The petty cash fund is not operated on an imprest basis and a ledger is not maintained to support the receipts and disbursements of petty cash. Also, the fund is not reviewed by a person independent of the accounting process. Although the balance of the fund is established at \$200, our cash count on August 17, 2005 revealed a total of \$237, consisting of cash and invoices. For the year ended June 30, 2005, petty cash was reimbursed approximately \$300 from the General Fund.

The petty cash fund should be operated on an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. In addition, the city should maintain a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

- G. At June 30, 2005, the balance of the escrow accounts totaled almost \$24,000; however, the city cannot readily identify who has made deposits to escrow or if

any monies should be refunded. The city does not maintain an account ledger for its two escrow accounts, erosion and road and street. In addition, the city does not have procedures in place to ensure that adequate follow up steps are taken on the projects in a timely manner.

City ordinances allow applicants to post deposits in lieu of surety bonds for performance and maintenance bonds for projects dealing with excavation within the city-owned right-of-way, public improvements, and erosion control. Some of these monies are to be held by the city until the related project is completed satisfactorily and others are to be held for a specific period after the project is completed whereupon the city would refund the monies.

Recording all deposits and disbursements is necessary to ensure all funds held in escrow are accounted for properly. A correctly maintained escrow account ledger is crucial in the process of identifying liabilities of the city and to aid in the timely follow-up on the status of the escrow monies.

- H. The city needs to consolidate its bank accounts and ensure all funds are in interest-bearing accounts. At June 30, 2005, the city maintained 13 bank accounts and 7 certificates of deposit (CDs). At that date, five of these accounts, totaling almost \$32,000, did not earn interest.

Except for the protested property tax accounts, it appears the bank accounts and CDs could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. A large number of bank accounts requires additional record-keeping and increases the likelihood that errors will occur in the handling of funds. Also, the failure to have funds in interest-bearing accounts results in the loss of revenues.

To maximize interest earnings, all funds should be placed in interest-bearing accounts. Additionally, consolidating accounts would also allow funds to be pooled for increased investment opportunities. At June 30, 2005, the city was earning 1.35 percent on its general operating account and rates ranging from 2.28 to 3.5 percent on CDs.

WE RECOMMEND the Board of Aldermen:

- A. Develop a policies and procedures manual for the accounting system.
- B. Evaluate the duties of the City Treasurer and City Collector to ensure the duties are necessary, comply with state law, and provide for an adequate segregation of record-keeping duties for the city.
- C. Segregate the duties of the city clerk's office to the extent possible. If proper segregation of duties cannot be achieved, at a minimum, procedures for an

adequate independent review of the record-keeping functions should be established.

- D. Require prenumbered receipt slips be issued for all monies received, reconcile the composition of monies collected to receipt slips and bank deposits, and ensure the numerical sequence of receipt slips issued is accounted for properly.
- E. Ensure all receipts are deposited intact daily or when accumulated receipts exceed \$100.
- F. Maintain the petty cash fund on an imprest basis and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. A log of petty cash fund transactions should be maintained to properly document the financial activity of the fund.
- G. Maintain an escrow account ledger which documents all escrow deposits and disbursements. The city should also establish procedures to ensure projects are followed up in a timely manner to determine if and/or when refunds should be made.
- H. Consider consolidating the city's bank accounts and CDs and maintain all funds to the extent possible in interest-bearing accounts.

AUDITEE'S RESPONSE

- A. *We agree.*

The City is well aware of the need for a policies and procedural manual for the accounting system. However, a new accounting system was purchased in the Fall of 2004 and not installed until October 2005. It seemed an unwise use of time to write a manual for the old system when the city was changing to a new one a short time later. Once forwarded balances are proved and the 6-month financials are published, work can resume using the new system for support documentation.

- B. *We partially agree.*

Neither the City Treasurer nor the City Collector's job was designed nor compensated as a full time position for the City. We do not require either to be here during normal business hours. Therefore, the depositing of actual money is not a realistic function for either of these two positions. We have redefined the Collector's job description to include a review of all deposits made including the tracking of ambulance revenue. This will be accomplished by June 30, 2006. The Treasurer will begin to balance all bank accounts by this date as well.

- C. *We partially agree.*

With a limited staff the segregation suggested by the auditors is impossible and impractical. However, as stated to the auditors, the Mayor prior to signing checks for any payable run, reviews payables on a random basis. This requires the clerk to pull documentation as support. A check for possible duplicate payments is also made. The Board receives copies of all bills over \$1,000 but all bills are available for their inspection before being approved for payment. Further procedures for review will be incorporated into the accounting procedures manual.

D. *We disagree.*

The City utilizes a computerized accounting system. Any attempts to add manual checks and balances to monies being received will not be considered. However, the City will investigate a computerized module that might perform this function.

E. *We disagree.*

With the change of personnel in the City Clerk's office, deposits are made within 72 hours of receipt. Larger deposits are made more frequently. Until the money is deposited it remains in a locked safe area. The City has established a lock box system for tax receipts so that most of the tax receipts go directly to the bank for same day deposit.

F. *We agree.*

The Petty Cash is maintained with a balance of \$200. A distribution log is attached to each reimbursement check. Cash payments from Petty Cash are \$25 or less.

G. *We agree.*

Former City Clerks did not maintain the Escrow Fund. Deposits are being identified and disbursed where necessary.

H. *We partially disagree.*

The Board and Treasurer act in a fiscally responsible manner and obtain the highest rate available for City funds. Restricted funds cannot be co-mingled. Nor can Court funds be co-mingled with regular City funds. The auditors have erroneously stated that the City's general operating accounting is not interest bearing. It is and has been for many years. The payroll account is an overnight transfer from the general account to cover payroll expenses. The money is typically disbursed from the payroll account within a week or less. The other three small accounts will be changed to interest bearing.

AUDITOR'S COMMENT

H. The five bank accounts included the sweep, payroll, DUI/DWI recoupment, erosion control, and judicial education accounts, and not the city's general operating account.

Significant weaknesses were identified in the city's budgeting, financial reporting, and planning. The fiscal year 2005 budget did not include all information required by state law, actual expenditures exceeded the budget for some funds, budget amendments were not prepared timely, and the budget to actual reports were not complete and were not always reviewed by the entire board. In addition, there were unexplained differences in some fund balances on published financial statements and financial reports were not submitted on a timely basis in accordance with state law. Finally, the city needs to prepare an annual maintenance plan for city streets.

- A. The budget prepared for the year ended June 30, 2005 did not include a budget message, information regarding the city's debt, or actual revenues and expenditures for the two preceding budget years. The budget included actual amounts for the year ended June 30, 2003, but apparently included budgeted amounts for the year ended June 30, 2004. (The city could not identify from where the information was obtained.) Additionally, the beginning balances of the various funds did not always agree to the city's cash records and the budget's detail receipt and disbursement amounts did not always reconcile to the summary amounts. Finally, the budget was not approved by the board until February 7, 2005.

Section 67.010, RSMo, requires the preparation of an annual budget with specific information. Section 67.030, RSMo, provides that the board adopt and approve the budget prior to the beginning of the applicable fiscal year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years. Additionally, the beginning cash balances of the funds should agree to the accounting records and summary totals should accurately reflect the detail amounts.

- B. For the year ended June 30, 2005, the city's actual expenditures exceeded the original and/or amended budgeted amounts for the General, Sewer, and Storm Water funds. Additionally, the board waited until the end of the fiscal year to prepare budget amendments. However, even with amendments to both increase or decrease budget amounts, expenditures exceeded the amended budgets for some funds as follows:

	Original Budgeted <u>Expenditures</u>	Amended Budgeted <u>Expenditures</u>	Actual <u>Expenditures</u>	(Over) <u>Budget</u>
General	\$ 1,213,128	1,128,656	1,273,563	(144,907)
Sewer	383,025	311,566	313,930	(2,364)
Storm Water	697,014	30,732	33,992	(3,260)

The budget process provides a means to allocate financial resources in advance and to monitor revenues and expenditures throughout the year. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of the process. Section 67.040, RSMo, requires political subdivisions to keep expenditures within amounts budgeted and allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The city should formally amend the budget before the related expenditures are incurred.

The city's independent auditors also reported that actual expenditures exceeded budgeted amounts in some funds in their audit report for the year ended June 30, 2004.

- C. The monthly variance (budget to actual) report is provided to the Finance Committee, which is comprised of board members; however, there was no documentation that the budget to actual report was always reviewed and discussed by the entire board. Also, the report was incomplete as it did not include the balance of various funds.

To help ensure the city's budget and financial condition is adequately monitored, complete budget to actual reports need to be prepared and be reviewed by the entire board. An adequate budget to actual report, including the balance of the various funds, would help ensure budgets are not overspent and funds are available for expenditures.

- D. There were significant differences between the ending fund balances on the semiannual published financial statement for the period January 1, 2004 to June 30, 2004 and the beginning fund balance as of July 1, 2004 on the next semiannual published financial statement, as follows:

	June 30, 2004 <u>Ending Balance</u>	July 1, 2004 <u>Beginning Balance</u>
General Fund	\$ 469,255	671,315
Storm Water Fund	131,481	79,421

According to the City Treasurer, the differences were caused when a CD was not properly reported in the General Fund and a Storm Water Fund expenditure was improperly reported in the General Fund. Apparently, these errors originally went undetected and were later corrected without any documentation supporting the changes.

Complete, accurate, and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city.

- E. The city does not submit an annual financial report to the State Auditor's office on a timely basis. In addition, the city is not obtaining timely audits of city funds. The city filed audited financial statements for the year ended June 30, 2003 on September 1, 2004 and submitted the audited financial statements for the year ended June 30, 2004 in December 2005. City personnel indicated they did not know when the audit for the year ended June 30, 2005 would start.

Section 105.145, RSMo, requires the city to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office. An unaudited report is due within four months after the end of city's fiscal year, while audited financial statements are due within six months after the end of the city's fiscal year. The city needs to obtain timely audits of city funds to better enable the city to ascertain the financial condition of the city and to ensure the propriety and accuracy of financial transactions.

- F. The city does not prepare an annual maintenance plan for city streets. During the year ended June 30, 2005, the Street Fund expenditures totaled over \$187,000.

A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets which contain all information as required by state law. Also, the budgets should be adopted before the beginning of the city's applicable fiscal year. Additionally, the beginning cash balances of the funds should agree to the

accounting records and summary totals should accurately reflect the detail amounts.

- B. Ensure actual expenditures do not exceed budgeted amounts. In addition, budget amendments should be made prior to incurring the actual expenditures.
- C. Ensure complete and accurate monthly budget to actual reports are prepared and are reviewed by the board.
- D. Ensure the ending fund balances on the published financial statement are properly carried forward to the next published statement. Any necessary adjustments should be documented on the statements.
- E. Submit annual reports of financial transactions to the State Auditor's Office on a timely basis as required by law. In addition, the city should obtain timely audits of city funds.
- F. Prepare an annual street maintenance plan as part of the budget, and periodically update the plan throughout the year as needed.

AUDITEE'S RESPONSE

A-E. We agree.

Budgeting has been a problem for the city as its budget grew. A large part of the accounting/budgeting shortfalls lies with the accounting system being used. The city used QuickBooks until October 2005. It outgrew the capabilities of this system three years prior. QuickBooks never had a budget vs. actual feature so therefore any attempts at amendments happened after the fact when expenses were actually accounted for.

Instead the Board adopted a procedure to identify "out of budget" expenditures in an effort to highlight these amounts for consideration in future budgeting exercises.

Because these funds were approved by motion, the Board made every effort available to them to flag these expenditures rather than hide the expenditure of these funds. The current fund based accounting system should rectify most of the budgeting shortfalls. Beginning with new fiscal year 2006-2007 the Board will have system generated budget documents to review monthly. This will ensure that actual expenditures do not exceed budgeted amounts and will allow for information to be viewed in a timely manner so that budget amendments can be made proactively.

Personnel changes in the City Clerk's office and the mistakes made therewith made audit activities an expense that the City felt that they had to manage judiciously. Therefore, catch up audits were not authorized because the City was paying the city auditors an enormous amount of money to make adjusting entries as part of the audit. The current Board feels that they have personnel in place in the clerk's office that can do the

accounting and have included in the 2005-2006-budget document an auditing fee that will bring the City up to date. City auditors have been on City property doing prep work for this audit as of April 2006. Fund balances will be reviewed by the City auditors as part of this audit activity and discussed with the treasurer to ensure that correct amounts are carried forward on the next published financial statement. Discrepancies will be footnoted.

F. *We agree.*

The City has a new Public Works Director who understands the need and importance of pre-planning and he presented a five-year street maintenance plan that was adopted in March 2006. A copy of the plan is available at City Hall for public inspection during normal working hours.

3. Fire Department

There are numerous weaknesses in the fire department's internal controls. Billing and collection policies and procedures for ambulance services need improvement and the fees for the ambulance service need to be based on actual costs. In addition, the fireman's time records did not always appear to be complete and accurate, the Fire Chief's compensation was not set by ordinance, and the number of hours the Fire Chief is expected to work has not been established. Finally, the city is not properly accounting for the payments to the volunteer firemen.

The city's fire department handles calls for both fire and ambulance services. For the year ended June 30, 2005, the city collected approximately \$65,000 and \$62,000 for ambulance services provided by the department and fire department sales tax, respectively. The fire department does not collect fees for fire services. The city has decided to use the sales tax revenues for fire department equipment. All other expenditures for the fire department, such as salaries and fringe benefits, volunteer expense, supplies, and training are paid through the General Fund. These expenditures totaled over \$300,000 for the year ended June 30, 2005, with the majority of the expenditures related to personnel costs.

A. The city needs to improve its records and procedures related to the billing and collection of fees for ambulance services.

The city contracts with an agency for the billing and collection of ambulance fees. The agency files insurance claims for insured people with private insurance, Medicaid and Medicare or bills patients for amounts not covered by insurance. During the spring 2005, the city changed its billing/collection agency. The new agency receives seven percent of collections for current accounts and ten percent for delinquent accounts. The former agency received eight percent of collections.

For each applicable ambulance run, the Fire Chief prepares a billing sheet which is sent to the billing/collection agency who uses this information for filing and billing insurance claims. Payments are sent to the city clerk's office and copies of the checks along with any "explanation of benefits" are forwarded to the Fire Chief. The Fire Chief then sends the billing/collection agency relevant payment information for the agency's records.

1. The city does not maintain an accounts receivable ledger for ambulance services and is not informed when billing information is sent to the billing/collection agency. In addition, the billing and payment records maintained by the Fire Chief are not complete or accurate. As a result, the amount of fees billed and paid and the accounts receivable balance cannot be readily determined.

The Fire Chief maintains a computerized spreadsheet of all fire and ambulance runs with the related fees charged for the ambulance services. However, our review of the spreadsheet in November 2005 revealed that most payments received by the city were not recorded on the spreadsheet. Also, the date the billing information is sent to the agency is not always recorded on the spreadsheet. In addition, some runs made after April 2005 were not recorded on the Fire Chief's list of runs. As a result, the city has little assurance that the proper fees are billed for all runs, payments received are the proper amount, or the spreadsheet's receivable balances are correct and proper.

To facilitate monitoring of amounts due to the city and provide information to the board, an accurate and complete accounts receivable listing should be maintained by the city clerk's office, and accurate and complete detailed records should be maintained by the Fire Chief. A reconciliation of the beginning accounts receivable plus monthly billings, less payments and other adjustments to the ending accounts receivable should be performed. The individual account balances could then be totaled and agreed to the ending accounts receivable balance. This would help to ensure all amounts have been properly recorded to the individual account records and that delinquent balances are accurate.

2. It appears the Fire Chief is not sending the billing information to the city's billing/collection agency in a timely manner.

The new agency was to receive the billing information for runs made after March 2005, while the former agency was to receive billing information for runs through March 2005. According to the new agency's personnel, as of October 2005, they had not received any billing information regarding ambulance runs or payments after August 2005. In addition, when reviewing some explanations of benefits, we noted an instance when an insurance company rejected a claim as the time limit for filing had

expired. The claim was received by the insurance company in June 2005; however, the ambulance services were furnished by the city in February 2004.

The agency needs complete, accurate, and timely information to perform its billing and collection activities. Also, to help ensure ambulance service revenues are maximized, the billing information should be sent out to the billing agency on a timely basis.

3. The city needs to establish formal procedures outlining the criteria or specific procedures to be followed in writing off delinquent accounts deemed as uncollectible. The city's accounts receivable policy considers ambulance fees delinquent if the amounts are not paid within 60 days after the first billing statement and the billing/collection agency is allowed to pursue payment on delinquent amounts for one year. However, the city's policy does not address how delinquent accounts which are deemed as uncollectible should be handled. According to city personnel, delinquent accounts are not written-off.

To ensure delinquent accounts are properly handled, the city should adopt policies for writing off delinquent accounts. Also, a control list of accounts written-off should be maintained, and the board should review and approve the accounts written-off.

The city's independent auditors also recommended the city develop and implement internal control procedures for ambulance billings in their Report to Management for the year ended June 30, 2004.

- B. The Fire Chief indicated the rates for ambulance services are based on the average rates charged by surrounding areas, rather than on the actual cost of those services to the city. There was not documentation regarding how the rates were determined.

The charge for services should be based on the city's actual cost. A written cost analysis and periodic adjustment of rates charged is necessary to ensure all costs to the city are recovered, as appropriate.

- C. The time records maintained for both part-time and volunteer firemen need to be improved. The city clerk's office prepares the payroll checks for the firemen from summary worksheets prepared by the Fire Chief. These worksheets include the total hours worked and/or number of calls and compensation to be paid for each fireman for the applicable pay period. Quarterly, volunteer firemen are paid a certain amount per run and for training and station coverage. Wages for part-time firemen are paid every two weeks. In addition, off duty firemen may be called in and paid for individual runs.

According to the Fire Chief, he uses various time records to prepare the summary worksheets. These records include manual time cards prepared by the part-time firemen, timesheets prepared by either the firemen or Fire Chief from the time cards, and call sheets prepared by volunteers. Daily logs are also prepared which identify firemen on duty, runs made, and volunteers called in. In addition, scheduling calendars (work schedules) are also maintained.

Our review of these time records revealed the following problems:

- Time cards are generally not signed by the firemen and time out was not always record on the cards.
- Timesheets are not always signed by the firemen.
- Time recorded on the time cards did not always agree to the time recorded on the timesheets.
- Volunteers do not always sign the volunteer call sheets.
- An officer in charge did not always sign the volunteer call sheets to verify the activity.
- Timesheets were sometimes prepared when the firemen were not recorded on the daily log as working.
- Daily logs are not signed by the officer in charge.
- Changes were sometimes made to the payroll records without documentation regarding why the changes were made or who made the changes.

Complete and accurate time records are necessary to document hours worked, substantiate payroll expenditures, and provide the board with a method to monitor hours. To adequately account for all payroll expense, the time cards, timesheets, and volunteer call sheets should be signed by all part-time and volunteer firemen and should be reviewed and approved by a supervisor. If changes are made to these time records, the individual making the change and the reason(s) for the change should be documented. In addition, the supervisory review should ensure all payroll records are in agreement.

- D. The board has not adopted an ordinance to set the current compensation of the Fire Chief. In addition, the board has not established the number of hours it expects the Fire Chief to work and does not require him to account for the hours he works. The Fire Chief is employed part-time by the city because he is employed full-time with another municipality.

1. In July 2005, the board approved increasing the Fire Chief's annual salary to \$20,000 from \$14,600; however, the increase was not established by ordinance. Section 79.270, RSMo, requires that the compensation of city officials and employees be set by ordinance.
2. The city has not established the number of hours it expects the Fire Chief to work for the compensation received. Additionally, the Fire Chief's hours were not included on the fire department's payroll sheets submitted to the city clerk's office to support payroll expenditures. It appears the Fire Chief sets the time and dates he works and neither the board nor city clerk's office is aware when he is or is not working.

The board needs to establish the number of hours the Fire Chief is expected to work for the compensation received. Additionally, the board needs to ensure that adequate supporting documentation, such as a timesheet, is provided to support the payroll expenses paid and to monitor the hours worked. Lack of adequate documentation prevents the board from evaluating the appropriateness of the compensation.

- E. The city is not properly accounting for its payments to the volunteer firemen. Volunteer firemen are paid \$7.50 per training meeting and run during their first year of employment and \$10 for meetings and runs for subsequent years.

In June 2005, the city decided the payments made to the volunteer firemen would be considered a reimbursement for expenses incurred. Prior to that time, the payments were treated as wages, with applicable withholdings and taxes.

However, the city does not require the volunteers to account for the reimbursement of expenses. Internal Revenue Service (IRS) regulations require that expenses not accounted for to the employer be considered gross income and subject to applicable withholdings and taxes. The city needs to require the volunteers to account for the payments received or treat the payments as wages, subject to applicable withholdings and taxes.

WE RECOMMEND the Board of Aldermen:

- A.1. Maintain an accounts receivable ledger for ambulance services. Additionally, the detailed accounts receivable records should be complete and accurate and updated in a timely manner. Also, the accounts receivable balance should be periodically reconciled to the detailed records.
2. Ensure billing and payment information is sent to the billing/collection agency in a timely manner.

3. Establish a formal policy for writing off delinquent accounts deemed as uncollectible. A control list of the accounts written-off should be maintained and the board should review and approve any accounts written off.
- B. Base the ambulance rates on actual costs. The rates should be periodically reviewed and adjusted as necessary to reflect current costs.
- C. Require the time cards, time sheets, and volunteer call sheets to be signed by the part-time/volunteer firemen and reviewed and approved by a supervisor. The reason for any change(s) to these time records and the individual making the change(s) should be documented. In addition, the supervisory review should ensure all payroll records are in agreement.
- D.1. Establish the Fire Chief's compensation by ordinance as required by state law.
2. Establish the number of hours the Fire Chief is expected to work and require the hours worked be documented.
- E. Require the volunteer firemen to account for the payments received or treat the payments as wages, subject to applicable withholdings and taxes.

AUDITEE'S RESPONSE

A.1. *We agree.*

The City has purchased software that enables it to keep and maintain detailed accounts receivable records.

A.2. *We agree.*

Ambulance billing information is sent via DHL Overnight Service approximately the 15th and 30th of each month. Monthly ambulance runs for the City average 35 per month.

A.3. *We agree.*

A policy has been adopted.

B. *We agree.*

Our ambulance rates were based on actual costs to run the vehicle. At the time of this audit, the City was using an older vehicle that had been donated to them. The costs for service reflected the maintenance costs of the vehicle as well as the normal associated costs.

C. *We partially agree.*

The procedures for time reporting have been changed citywide. Every employee signs their individual time sheet and the time sheets are reviewed by their supervisor before submission.

In the course of a year, the Fire Chief calculates approximately 2,120 checks either as volunteer runs or hourly pay. He supports his pay schedules with proper documentation.

D.1. *We agree.*

The Fire Chief's salary has been established by ordinance.

D.2. *We disagree.*

The Fire Chief does and always has documented his time. His schedule is based on his full time employment. He works at least 20 hours per pay period and often times more than the required 20 hours.

E. *We agree.*

Volunteer expense reimbursement forms will require documentation from the firefighter before they receive their quarterly checks.

AUDITOR'S COMMENT

D.2. The city has no written agreement regarding the number of hours it expects the Fire Chief to work. The city subsequently provided us with computerized payroll reports for the Fire Chief for the period January 1 through June 17, 2005. These reports showed that he worked a total of 715 hours during that time, an average of almost 60 hours per each two-week pay period.

4. Minutes and Meetings

The city needs to ensure that complete minutes are prepared and maintained for all meetings of the board and city affiliated committees.

A. The board occasionally held closed meetings; however, minutes of these meetings are not adequate. The minutes did not include sufficient detail of matters discussed and action taken. It appears most of the minutes were notes jotted down by a board member. Many minutes were handwritten rather than typed and the minutes were not signed by the preparer.

Section 610.020, RSMo, requires minutes of closed meeting be taken and retained by all governmental bodies and to indicate the date, time, place, members present, members absent, and a record of votes taken.

Minutes of closed meetings constitute the record of proceedings of the board. They help show that the closed discussions or business related to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo, and document important facts considered in reaching significant decisions regarding city business.

- B. The minutes of city affiliated committees were not always signed or filed with the City Clerk, the official custodian of records.

The City Clerk prepared the meeting notices and agendas for committee meetings. However, all committee minutes were not filed with the City Clerk. Additionally, minutes were not always signed by the preparer and/or chairperson or properly approved.

Complete and accurate minutes provide an official record of committee actions. In addition, Section 610.020, RSMo, requires minutes be taken and include the date, time, place, members present, members absent, and a record of votes taken. Minutes should be approved and signed to provide an independent attestation that the minutes are an accurate record of the matters discussed and actions taken during the meetings.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes of closed meetings clearly document all business conducted and are properly signed.
- B. Ensure minutes of meetings of city affiliated committees are complete, properly signed, and copies filed with the City Clerk.

AUDITEE'S RESPONSE

- A. *We partially agree. The city has utilized their closed session meeting minutes in conjunction with the regular meeting minutes. If those two documents are viewed together then there is the required information, minus signatures in some instances, of the meeting minute taker. If the document is meant to be a stand alone, then we are out of compliance. It is not clear to us from reading the cited statute how the document is to be viewed.*

- B. *We agree.*

Actions have been taken to insure that all minutes are in the custody of the City Clerk.

5.**Expenditures**

The city needs to establish a formal bidding policy, ensure expenditures are authorized for payment, and properly account for cash advances. In addition, the city spent public funds on a holiday party.

- A. The city does not have a formal bidding policy. According to city personnel, the informal bid policy is to obtain three bids for purchases over \$500. However, we noted many instances where the informal policy was not followed. As a result, it appears the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis.

Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for \$10,000 for sewer maintenance, \$5,401 for a riding lawn mower, \$4,400 for two computers, and \$6,348 for ambulance repairs. In addition, proposals for professional services were not obtained for \$10,560 for computer network system administration services, \$6,050 for ambulance billing/collecting services, and \$3,210 for auditing and accounting services.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with lowest and best bidders. Also, soliciting proposals for professional services provide a range of possible choices and allows the city to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. Not only can bids/proposals be handled by telephone quotations but bids/proposals can also be obtained by written quotation, by sealed bid, or by advertised sealed bids. Various approaches are appropriate based on the dollar amount and type of purchases. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

- B. For expenditures tested, supporting documentation, such as invoices, was not always initialed and dated to indicate receipt of goods/services and authorization for payment. In addition, some invoices did not provide sufficient information regarding the services provided. While the city indicated that each department head was to initial and date invoices to indicate their review and approval, this policy was not always followed.

For example, invoices were not initialed and dated for some audit and accounting services, computer administration services, and the purchase of a lawn mower and backhoe. The invoices for the computer administration services did not indicate the number of hours worked each month or the type of services provided.

The supporting documentation for expenditures should be initialed and dated to indicate receipt of goods/services and authorization for payment. This is necessary to ensure the obligations were actually incurred and the expenditure represents the proper uses of public funds. Invoices should be reviewed to ensure there is sufficient detail to evaluate the appropriateness of the services being billed.

- C. The city does not require its employees to account for cash advances and return any unused funds. In addition, the city does not report the advances on the employee's W-2. The city allows its employees to request cash advances for travel expenses. For example, in February 2005, the city advanced four firemen \$80 each for food for a two day out-of-town training conference, with no follow up documentation.

The advance is not to exceed an amount equal to the number of scheduled conference days times the daily \$40 maximum meal allowance and other travel expenses. Although city policy requires employees to submit a travel expense report to their department head within seven working days upon returning from the travel, city personnel indicated that policy is not followed. In addition, Section 105.272.3, RSMo, provides that cash advances and any balance of the advance not used be submitted to the city within ten days after the expense was incurred.

Also, IRS regulations provide that if employee business expenses are not substantiated or the amounts in excess of expenses are not returned within a reasonable period of time, the amount paid is treated as paid under a nonaccountable plan and is subject to applicable withholdings and taxes.

- D. In December 2004, the city spent almost \$1,500 on a holiday party for city employees and their families. Spending public funds on a holiday party does not appear to be a prudent, reasonable, or necessary use of public funds.

The city's residents have placed a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The board should evaluate the propriety of spending public funds on this type of expenditure.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids or proposals.
- B. Ensure the supporting documentation for all expenditures are reviewed and authorized by appropriate personnel prior to payment. Invoices should include sufficient detail to evaluate the appropriateness of the services being billed.

- C. Establish procedures to ensure cash advances are properly accounted for and reported to the city. Otherwise, the cash advance should be reported on the employee's W-2 and subject to applicable withholdings and taxes.
- D. Ensure all disbursements of city monies are a necessary and prudent use of public funds. The board should refrain from expending city monies in a manner that primarily benefits individuals.

AUDITEE'S RESPONSE

- A. *We agree.*

An ordinance has been adopted establishing a formal bidding policy for the City.

- B. *We disagree.*

The appropriate department head reviews each of their invoices. After review, they initial the invoice and indicate which account they want the bill charged to.

- C. *We agree.*

A per diem policy was adopted in September 2005. In accordance with the policy, cash advances are made to an employee with the understanding that if they don't use all the money they are to return it to the City. The employees are instructed to turn in their receipts upon return to work. If receipts and/or money are not received in a timely manner (10 days) then the money is treated as income on the employee's W-2.

- D. *We disagree.*

A holiday employee recognition event is very much in order. There is no statute that prohibits a municipality from doing so. This is a once a year event and includes not only employees but also all members of the various commissions and boards who serve the City without pay.

6. Personnel Policies, Procedures, and Records

The city needs to ensure board members receive compensation as established by ordinance and the City Clerk's term of office and compensation is established in accordance with state law. Also, wage expense allocated to various city funds is not supported by adequate documentation and complete personnel files are not maintained for each employee.

- A. During the year ended June 30, 2005, one board member elected not to receive compensation totaling \$1,200. Board members receive \$100 per month, as established by ordinance.

In Reed v. Jackson County, 142 SW2d 862, 865 (Mo 1940), the Missouri Supreme Court ruled, "To permit public officers elected or appointed to receive by agreement or otherwise, a less compensation for their services than fixed by law, would be contrary to public policy of the state."

- B. The city appears to have circumvented the intent of state law when establishing the term of office and compensation of the City Clerk.

It appears the city re-defined the term of office and salary during the time for which a City Clerk was appointed. The term of office for the City Clerk was for two years through October 2006. In June 2005, the city hired a new City Clerk for a six-month probationary period, effective July 11, 2005, at a higher salary and also approved, that after a successful review, the term of office would be one year, with a \$1,000 raise. Ordinances were passed on July 13, 2005 to establish the six month term of office and compensation. Also, a new ordinance was passed on January 3, 2006 to establish the one year term and new compensation.

Section 79.320, RSMo, requires the City Clerk's duties and term of office be established by ordinance. Section 79.270, RSMo, provides that city officials and employee salaries be set by ordinance and also provides that "...the salary of an officer shall not be changed during the time for which he was elected or appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law. The city needs to ensure a new clerk is not hired before they change the term of office by ordinance and that the salary is not changed during a term.

- C. The method of allocating the public work employees' wage expense to the city's funds is not supported by documentation. Although the public work employees prepare time cards, the time cards show no detail.

During the year ended June 30, 2005, the public work employees' wages were paid by the Road and Street Fund for 9 months of the year, from the Sewer Fund for 2 and one-half months, and from the General Fund for the remaining half month. The city has no documentation to support how this allocation was determined.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs.

- D. Complete personnel files are not maintained by the city for each employee. Employee withholding forms (W-4s) were not on file for some employees and documentation of the approved employees' salaries and any adjustments (e.g. starting salary, raises) is not in the individual personnel files. The current City

Clerk has started to maintain a record of the changes in wage rates which occurred after she took office. Currently, the city's salary step plans are approved by ordinance and raises are approved in board meetings.

The IRS requires employers to ensure a Form W-4 is completed by each employee to support withholdings and taxes. In addition, personnel files should be maintained for each employee to provide documentation of personnel actions to provide readily accessible work histories. The personnel files should contain documentation of the board's authorization for the hiring of that employee, the pay rate at which the employee was hired, and any subsequent changes in pay rate.

WE RECOMMEND the Board of Aldermen:

- A. Ensure city officials are paid at established rates. Further, the board member should be paid \$1,200 for fiscal year 2005 and \$100 per month for applicable subsequent months.
- B. Ensure the City Clerk's term of office and compensation is established in accordance with state law.
- C. Ensure the public work employees' wages are properly allocated to the various funds and are supported by adequate documentation.
- D. Ensure all individuals receiving wages from the city have a properly completed W-4 on file. Additionally, complete personnel files should be maintained for all city employees which include authorization for the employee's hiring, the initial pay rate and any subsequent increases, and any other personnel actions.

AUDITEE'S RESPONSE

- A. *We agree.*

The Board of Aldermen is taking this issue under advisement.

- B. *We agree.*

The current City Clerk was not hired to complete an unexpired term. The term of employment began July 2005 with a specified salary for six months. At the end of that time, a new appointment was made for one year with a specified salary and will expire January 2007. The Board of Aldermen repealed the two-year term.

- C. *We agree.*

Since August 2005, all wages paid to Public Works personnel has been charged to the Public Works Department. At the end of the fiscal year, the appropriate wages will be

charged to the proper area. Again, with the change in personnel, the Public Works Director maintains supporting documentation for distribution of charges.

D. *We agree.*

The City Clerk now maintains the original personnel file on each City employee. That files includes a current W-4 both federal and state, release for and background check information, application for employment, benefits information, commendations, training, employee evaluations and employee actions.

Additionally, the City is now using a set of standardized employee forms for new hires, time sheets, leave requests and termination and/or exit interviews. The employee files also contain a spreadsheet with pay increase and promotion information on them.

7. Capital Assets

The city needs to improve internal controls over its capital assets. Complete and detailed records are not maintained, annual physical inventories are not performed, and property dispositions are not properly accounted for and handled.

A. The city does not maintain complete and detailed records for its capital assets, including land, building, equipment and furniture. In addition, property is not tagged for specific identification and an annual physical inventory of the property is not performed.

The capital asset records consisted of various listings, such as a list of computers and a list of equipment for various city departments used for insurance purposes. These lists did not include any city owned land and buildings. In addition, the cost of many items was not recorded.

Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amounts of insurance coverage. The city needs to maintain property records on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. All property items should be identified with a tag or other similar device, and the city should conduct annual physical inventories and compare to the detailed records. All property items should be recorded at historical cost or estimated historical cost, if actual cost is not available.

The city's independent auditors also reported this condition in their Report to Management for the year ended June 30, 2004.

- B. The city needs to develop policies and procedures to ensure property dispositions are properly accounted for and handled.

The city does not maintain records related to the disposition of capital asset items. In addition, without obtaining bids, the board approved selling a mower to the Fire Chief for \$1,500. The city's records showed an estimated value of \$2,000 for this mower.

The city needs to establish formal procedures in this area to ensure the disposition of city capital assets is properly handled, approved, and recorded in the capital asset records. These procedures should ensure the method of disposition (e.g., bids, public sale, etc.) allows for participation by the public and provides the best price for the city. Additionally, city property should not be sold directly to an employee.

WE RECOMMEND the Board of Aldermen:

- A. Maintain complete and detailed capital asset records that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for any property additions or dispositions as they occur, and all items should be tagged or otherwise identified as city property. Additionally, annual physical inventories should be performed and compared to the detailed records.
- B. Establish formal policies and procedures for the proper accounting and handling of capital asset dispositions. Complete records should be maintained to support all dispositions and such transactions should be recorded in the detailed capital asset records. Also, city property should not be sold directly to an employee.

AUDITEE'S RESPONSE

- A. *We partially agree.*

Assets for the City have been tagged and identified. The accounting software utilized by the City makes it possible to maintain a current inventory. The auditors suggest annual physical inventories but the City takes semi-annual inventories for insurance purposes. No property is disposed of without the consent and knowledge of the City Clerk who records the disposal of property.

The auditors made note that inventories did not include land, buildings and infrastructure. They did not note that they were consulted about the correct manner in which to cost and depreciate the roads, streets and infrastructure. We were informed several weeks after asking for assistance that they could not find anyone able to render advice in this area.

B. *We agree.*

A formal bidding policy has been adopted. Sealed bids will be requested on the disposal of all capital assets and the asset will be sold to the highest bidder. The auditors agreed that employees would be allowed to participate under these standards.

AUDITOR'S COMMENT

A. Generally accepted accounting principles for state and local governments allow the city some options on how to present infrastructure assets in the financial statements. The city should review authoritative guidelines and discuss various options with its independent auditors.

8. Municipal Court Division

The municipal court division does not adequately segregate duties, deposit timely, and account for liabilities. In addition, the police department needs to account for bonds issued. For the year ended June 30, 2005, the court collected approximately \$181,000 in fines and costs.

A. The duties of receiving, recording, depositing, and reconciling court receipts are not adequately segregated. The two part-time court clerks work alternate days and perform these duties. Neither the Municipal Judge nor other personnel independent of the cash custody and record-keeping functions provide any supervision or review of the work performed by the court clerks.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing court monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations of the composition of receipt slips issued to amounts deposited.

B. Monies collected by the municipal division are not deposited on a timely basis. Deposits are generally made twice a month, after court. For example, a cash count conducted on August 17, 2005 showed the court had on hand monies totaling over \$5,100, comprising of receipts collected from August 9 to 15, 2005, including over \$1,000 in cash held for 5 days.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, deposits should be made daily or when accumulated receipts exceed \$100.

C. The monthly listing of open items (liabilities) prepared by the court clerk is not reconciled to the bond bank account balance, maintained by the city clerk's office.

As of June 30, 2005, the open items listing, totaling \$21,539, was approximately \$2,200 less than the bond bank account balance. It appears that some of the excess funds in the bank account is interest earned.

The city clerk's office prepares monthly bank reconciliations for the bond account; however, copies of the bank reconciliations and statements are not given to the court clerk. Monthly reconciliations of open items to the reconciled bank balance are necessary to ensure proper accountability over open cases and to ensure monies held in trust by the city are sufficient to meet liabilities. The court clerk needs to perform this reconciliation and monitor the unreconciled differences from month to month. Any discrepancies or fluctuations should be promptly investigated. The city clerk's office should give the court clerk a copy of the bond account bank reconciliations and statements.

In addition, an attempt should be made to determine the proper disposition of these excess monies. For those monies which remain unclaimed, Section 447.595, RSMo, requires funds remaining unclaimed for one year after disposition of the case to be turned over to the state's Unclaimed Property Section.

- D. Although bond forms are prenumbered, neither the police department nor the municipal division account for the numerical sequence of bonds forms issued. Also, the police department does not maintain a log of the bonds collected. The police department accepts cash for the payment of bonds for the municipal division and other entities.

To adequately account for bond monies and to ensure all bond monies received are properly transmitted to the municipal division and other entities for processing, all bond forms and bond information should be recorded in a bond log and the numerical sequence of the bond forms should be accounted for properly.

WE RECOMMEND the city of Pleasant Valley Municipal Court Division:

- A. Adequately segregate the duties of receiving, recording, and depositing court monies, to the extent possible. If proper segregation of duties cannot be achieved, at a minimum, procedures for an adequate independent review of the record-keeping functions should be established.
- B. Deposit receipts daily or when accumulated receipts exceed \$100.
- C. Reconcile the monthly open items listing to the bond account bank balance. In addition, the court clerk should attempt to identify to whom the \$2,200 belongs and disburse the funds appropriately. If this cannot be determined, the excess monies should be turned over to the state's Unclaimed Property Section in accordance with state law.

- D. Work with the police department to ensure a bond log is maintained and the numerical sequence of all bond forms issued is accounted for properly.

BOARD OF ALDERMEN'S RESPONSE

- A. *We partially agree.*

The court clerk's office is only open four hours per day with one individual to staff the office. As with other City positions, this too is a part time position. There is an independent review of record keeping during the City's annual financial audit.

- B. *We partially agree.*

With limited personnel, funds are deposited every other day and always the day following court. Until funds are deposited they are kept in the locked safe area.

- C. *We agree.*

Records relating to these funds are in storage and have been ordered. Once they are available the city will make every effort to determine who the funds belong to and will disburse them accordingly.

- D. *We partially agree.*

The Police Department will make every effort to ensure that the sequentially numbered forms are accounted for. Once again, the auditors have overlooked the fact that the city is making every effort to become totally computerized. Their suggestion that hand written logs be maintained is a poor use of time and effort for the department.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF PLEASANT VALLEY, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Pleasant Valley is located in Clay County. The city was incorporated in 1962 and is currently a fourth class city. The population of the city in 2000 was 3,321.

The city government consists of a mayor and eight-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended June 30, 2005, are identified below. The Mayor was paid \$300 per month and Board members were each paid \$100 per month. The compensation of these officials is established by ordinance.

<u>Mayor and Board of Aldermen</u>	<u>Dates of Service During the Year Ended June 30, 2005</u>	
Rene Flippin, Mayor	July 2004 – June 2005	
Robert Wheeler (1)	July 2004 – June 2005	
Ruth Mesimer	July 2004 – June 2005	
Dana Dollins	July 2004 – June 2005	
Dana Kolka	April 2005 - June 2005	
Dennis Todd	July 2004 – April 2005	
Deanna Hanson	July 2004 – June 2005	
Nolan King	April 2005 - June 2005	
Mike Donnini	July 2004 – April 2005	
James Smith	April 2005 – June 2005	
Jenna Wilkinson (2)	July 2004	
Laura Jackson (3)	April 2005 – June 2005	
Jim Sandridge	July 2004 – April 2005	
<u>Other Elected Officials</u>	<u>Dates of Service During the Year Ended June 30, 2005</u>	<u>Compensation Paid for the Year Ended June 30, 2005</u>
Rosalee Linhart, City Collector (4)	July 2004 – June 2005	\$ 3,600

Other Principal Officials	Dates of Service During the Year Ended June 30, 2005	Compensation Paid for the Year Ended June 30, 2005
Debbra Stanley, City Clerk (5)	October 2004 – June 2005	\$ 23,313
Julia Mast, Treasurer	July 2004 – June 2005	3,600
Robert Boydston, Police Chief	May 2005 – June 2005	4,942
Don Mansell, Police Chief (6)	July 2004	7,967
Robert Stinson, Fire Chief	July 2004 – June 2005	14,330
James Huey, Public Works Director (7)	July 2004 – April 2005	50,473
Edward Coulson, Municipal Judge	July 2004 – June 2005	10,000
Steven Salmon, Prosecuting Attorney	July 2004 – June 2005	12,000

- (1) Mr. Wheeler elected not to receive compensation.
- (2) Ms. Wilkinson resigned July 2004. This position was not filled until the election in April 2005.
- (3) Ms. Jackson resigned in August 2005. Dixie Hermanson was appointed to fill this position in September 2005.
- (4) Ms. Linhart resigned in December 2005. Geraldine Danielson was appointed to replace her in January 2006.
- (5) Ms. Stanley resigned in June 2005 and was replaced by Kathy Irvine in July 2005.
- (6) Mr. Mansell resigned July 2004. His compensation included payment for accrued leave.
- (7) Mr. Huey resigned April 2005 and was replaced by Robert Johnson in August 2005. His compensation included payment for accrued leave.

In addition to the officials identified above, the city employed 16 full-time employees and 40 part-time employees on June 30, 2005.

Assessed valuations and tax rates for 2004 were as follows:

ASSESSED VALUATIONS	2004
Real estate	\$ 28,057,240
Personal property	7,738,726
Railroad and utility	929,015
Total	<u>\$ 36,724,981</u>

TAX RATES PER \$100 ASSESSED VALUATION

	2004 Rate
General Fund	\$ 0.6443

TAX RATES PER \$1 OF RETAIL SALES

	Rate
General	\$ 0.0100
General	0.0100
Transportation	0.0025
Capital improvement	0.0050
Fire department	0.0025
Storm water	0.0050

The storm water sales tax will expire in 2008.

A summary of the city's financial activity for the year ended June 30, 2005, is presented on the following pages. Since the city did not prepare detailed financial statements for the year ended June 30, 2005, this financial activity was prepared from the City Treasurer's financial statements' work sheets. Certain receipt and disbursement categories from the work sheets were combined and presented in the financial activity summary.

	General Fund	Road and Street Fund	Sewer Fund	Capital Improvements Fund	Storm Water Fund	Parks Fund	Fire Department Sales Tax Account (1)	Total
RECEIPTS								
Property taxes	\$ 274,124	0	0	0	0	0	0	274,124
Sales tax	388,139	62,161	0	124,321	124,315	0	62,128	761,064
Motor fuel and vehicle taxes	0	138,498	0	0	0	0	0	138,498
Utility franchise taxes	147,831	0	0	0	0	0	0	147,831
Licenses and permits	78,898	0	0	0	0	0	0	78,898
Interest	16,600	2,835	449	0	0	35	0	19,919
Sewer collections	0	0	335,253	0	0	0	0	335,253
Ambulance services	65,169	0	0	0	0	0	0	65,169
Dispatching	15,625	0	0	0	0	0	0	15,625
Fines and court costs	180,889	0	0	0	0	0	0	180,889
Bonds	47,856	0	0	0	0	0	0	47,856
Other	19,155	450	0	0	0	0	0	19,605
Total Receipts	1,234,286	203,944	335,702	124,321	124,315	35	62,128	2,084,731
DISBURSEMENTS								
Salaries and fringe benefits	714,988	64,427	19,185	0	0	0	0	798,600
Volunteer expense	10,686	0	0	0	0	0	0	10,686
Insurance	74,186	11,350	1,895	0	0	28	0	87,459
Computer administration	33,183	0	0	0	0	0	0	33,183
Judge and prosecutor	20,414	0	0	0	0	0	0	20,414
Medical director	2,400	0	0	0	0	0	0	2,400
Street lights	0	27,874	0	0	0	0	0	27,874
Kansas City sewer charges	0	0	263,138	0	0	0	0	263,138
Sewer maintenance	0	0	13,967	0	0	0	0	13,967
Elections	3,040	0	0	0	0	0	0	3,040
Equipment	19,754	63,887	0	0	0	0	0	83,641
Vehicle expense	34,897	3,247	0	0	0	0	6,348	44,492
Uniforms	2,580	1,619	774	0	0	0	0	4,973
Snow and ice	0	5,670	0	0	0	0	0	5,670
Street repair	0	5,456	0	0	0	0	0	5,456
Legal	28,516	0	0	0	0	0	0	28,516
Accounting and audit services	3,635	0	0	0	0	0	0	3,635

	General Fund	Road and Street Fund	Sewer Fund	Capital Improvements Fund	Storm Water Fund	Parks Fund	Fire Department Sales Tax Account (1)	Total
Billing services	6,050	0	12,124	0	0	0	0	18,174
Erosion control	10,950	0	0	0	0	0	0	10,950
Utilities	40,955	402	0	0	0	0	0	41,357
Building maintenance	6,363	1,327	0	0	0	0	0	7,690
Incarceration fees	13,538	0	0	0	0	0	0	13,538
Engineers	5,501	1,009	0	0	27,016	0	0	33,526
Supplies	15,993	83	0	0	0	22	0	16,098
Copiers	6,313	0	0	0	0	0	0	6,313
Printing	3,344	0	0	0	0	0	0	3,344
Refunds	23,329	0	0	0	0	0	0	23,329
Postage	3,826	0	0	0	0	0	0	3,826
Training	10,013	0	0	0	0	0	0	10,013
Grant expense	3,625	0	0	0	4,125	0	0	7,750
Construction	0	0	0	0	2,500	0	0	2,500
City hall annual lease payment	0	0	0	90,766	0	0	0	90,766
Other	54,539	800	2,847	0	351	2	0	58,539
Total Disbursements	1,152,618	187,151	313,930	90,766	33,992	52	6,348	1,784,857
Receipts Over (Under) Disbursements	81,668	16,793	21,772	33,555	90,323	(17)	55,780	299,874
TRANSFERS								
Transfers from:								
General Fund	0	30,000	0	0	84,597	0	0	114,597
Transfers to:								
Road and Street Fund	(30,000)	0	0	0	0	0	0	(30,000)
Storm Water Fund	(84,597)	0	0	0	0	0	0	(84,597)
Total Transfers	(114,597)	30,000	0	0	84,597	0	0	0
Receipts Over (Under) Disbursements and Transfers	(32,929)	46,793	21,772	33,555	174,920	(17)	55,780	299,874
Cash Balance, July 1	608,592	227,497	127,331	40,637	38,784	4,292	62,723	1,109,856
Cash Balance, June 30	\$ 575,663	274,290	149,103	74,192	213,704	4,275	118,503	1,409,730

(1) The overall financial activity of the fire department is accounted for in the General Fund. However, the Fire Department Sales Tax monies are recorded in a separate account within the General Fund and the city has restricted the use of these monies to the purchase of fire department equipment.